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## Chapter 13 – Asset Management

### 13.1 Introduction

The State of Delaware has a significant investment in capital assets such as land, land improvements, buildings, machinery, equipment, and infrastructure. These assets have initial useful lives that extend beyond a single reporting period. To improve financial reporting, accountability, and operational efficiencies in managing these capital assets, the State uses the FSF Asset Management (AM) module.

The State maintains its capital asset management system in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board's (GASB) Statement No. 34, (Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments). GASB 34 requires that governments depreciate their exhaustible capital assets, and that asset reporting is part of the annual GAAP package.

In addition to reporting requirements, complete and accurate capital asset records can help managers identify underutilized buildings or surplus assets that can be reassigned for more productive use. Accurate records can also help identify replacement and/or renovation needs of existing assets. This type of management information is useful in making budgetary decisions for specific requests and long term capital planning.

### 13.2 Segregation of Responsibilities for Asset Management

DOA Central Asset Management (CAM) personnel are responsible for managing capitalized assets (CAPITAL assets) in FSF. Individual agencies are responsible for managing any assets that do not meet the State's capitalization thresholds (non-capitalized or NOCAP assets). However, the State's CAM personnel are available to support agencies in this effort. Agencies should contact CAM personnel with any asset management questions. (Agencies should refer to **Section 13.4** for the State's CAPITAL asset capitalization thresholds.)

#### 13.2.1 Division of Accounting's Asset Management Responsibilities

DOA develops, implements, and maintains uniform capital asset policies, procedures, reports, manuals, directives, instructions, and systems. All policies are periodically reviewed and updated, as needed.

### **13.2.2 Agency Asset Management Responsibilities**

All state agencies are responsible for executing and adhering to the State's capital asset accounting and reporting policies, procedures, guidelines, and standards. While CAM is responsible for managing CAPITAL assets, agencies retain full responsibility for managing any agency NOCAP assets. Agency officials must:

1. Establish internal written procedures and controls necessary to implement and monitor applicable asset management accounting and reporting policies, guidelines, and standards.
2. Assign responsibilities to specific individuals for the various asset accounting and reporting functions.
3. Ensure the timely, accurate, and complete processing and recording of all asset-related transactions in conformance with applicable state requirements.
4. Ensure proper retention of source documents and records pertaining to assets for audit purposes. Asset documentation is maintained in accordance with standard accounting guidelines and is subject to examination.
5. Establish adequate procedures and controls to safeguard and physically account for general capital assets, including an annual physical inventory of all tracked assets. A physical inventory certification must be forwarded to DOA no later than July 31 following the fiscal year in which the inventory was taken. Documentation must be maintained in support of each year's physical inventory until a successful audit is completed.

### **13.2.3 Inventory Control of Assets**

Agencies are encouraged to maintain property listings of "Public Appeal" and other NOCAP asset items for the purpose of safeguarding these items against loss or misuse. "Public Appeal" items are those items that are easily misplaced or stolen; (e.g. personal computers, printers, tools, office equipment, etc.)

Each agency may use its own discretion when selecting items to be maintained in its NOCAP listing. However, agencies should consider costs versus benefits in developing individual NOCAP listing policies and procedures. When establishing inclusion criteria for NOCAP listings, agencies should consider factors such as grant requirements, insurance provisions, and the costs and benefits of maintaining and monitoring the selected items involved.

The federal threshold for asset tracking is \$5,000, which is lower than the State's CAPITAL asset threshold. Agencies are responsible for ensuring that all assets valued between \$5,000 and \$25,000 that are purchased with federal funds are properly accounted for in the agency's NOCAP records. Assets valued above \$25,000 that are purchased with federal funds are maintained in the State's CAPITAL asset listings.

### 13.3 Capital Assets

Under accounting rules required by GASB Statement No. 34, all capital assets of a governmental entity must be reported at the entity-wide perspective in the Statement of Net Assets at historical cost (or estimated historical cost) less accumulated depreciation.

Capital assets include land and land improvements, buildings and building improvements, vehicles, furniture, equipment, easements, infrastructure, and computer software. Computer Software-Work-In-Progress and Construction-Work-In-Progress are not considered capital assets.

1. Capital assets must meet the following criteria:
  - Be tangible (i.e., buildings and equipment) or intangible (i.e., easements);
  - Have an estimated life of more than one year; and
  - Be of significant value. The significant value test relates to the capital asset capitalization thresholds of an individual asset. (**Section 13.4**)
2. Capital assets are not intentionally acquired for resale, nor are they readily convertible to cash.
3. Capital assets can be obtained through direct purchase, installments, capital lease, donation, or confiscation. Capital assets obtained through direct purchase, installments, or capital lease are recorded at cost or historical cost. Capital assets obtained through donations or confiscations are recorded at fair market value, at the time of acquisition.
4. The cost of capital assets includes ancillary charges to place the asset in its intended location and condition for use, in addition to acquisition or construction costs. These ancillary charges may include:
  - Freight and Transportation Charges;
  - Site Preparation Expenditures;
  - Installation Costs;
  - Professional Fees (such as surveying, engineering or project management fees); and

- Legal Claims Directly Attributable to Asset Acquisition.
5. Trade-in allowances do not reduce an asset's cost base. Agency administration charges are not part of the recorded cost basis of an asset.
  6. **The desired method of asset valuation is actual (historical) cost.** Documentation may be in the form of original invoices, purchase orders, check copies, contracts, and/or minutes, etc. If an agency is unable to establish actual cost after a reasonable amount of effort, estimated cost data may be used. Methods available for ascertaining estimated costs include:
    - Engineering Studies;
    - Catalog Prices;
    - Vendor Price Lists;
    - Internal Appraisal via the Purchasing Department;
    - External Appraisal; and
    - Matching to Previously Purchased Items.
  7. Capital assets purchased in quantities of two or more are capitalized only after determining the unit cost of each individual asset. Only individual capital assets (quantities of one) are recorded. **Group purchases of assets are not recorded in the aggregate.**

## 13.4 Capital Assets Thresholds

The asset capitalization thresholds are for financial reporting purposes only. The capitalization thresholds listed here do not supersede individual agency policies established to maintain internal control over capital assets using a lower threshold. State agencies are encouraged to maintain property listings of “Public Appeal” and other non-capital asset items for the purpose of safeguarding these items against loss or misuse (**Section 13.2.3 Inventory Control of Assets**). Agency CAPITAL and NOCAP asset policies and procedures are required to be documented as part of the agency Internal Control Plan. Agencies should refer to Chapter 2 – Internal Controls for more information.

All agencies are required to use the statewide capital asset capitalization thresholds, as listed in the following subsections:

#### 13.4.1 State Capital Asset Thresholds

#### 13.4.2 Medicare Capital Asset Thresholds

#### 13.4.3 DelDOT Capital Asset Thresholds

### 13.4.1 State Capital Asset Thresholds

The State's asset reporting/capitalization thresholds are established in compliance with national standards to accurately reflect the assets' respective utilities, any associated administrative and maintenance costs and to determine the relative materiality of the assets or asset groups to the State's consolidated and general purpose financial statements.

Assets meeting the State's thresholds are required to be tracked in the State's financial managements system's CAPITAL asset listing for reporting purposes. Agencies should contact DOA's CAM personnel for assistance or questions pertaining to CAPITAL thresholds.

### Capital Asset Reporting Thresholds

<u>Asset Classification</u>	<u>State Requirement</u>
Buildings	All Buildings
Building Improvements	≥ \$100,000
Easements	All Easements
Infrastructure	≥ \$1,000,000
Land	All Land
Land Improvements	≥ \$100,000
Leasehold Improvement	≥ \$100,000
Leased Assets	See specific Asset Class
Software	≥ \$1,000,000 for Assets purchased or put in service after July 1, 2005
Vehicles, Furniture and Equipment	≥ \$15,000, prior to July 1, 2004

**Asset Classification**

**State Requirement**

≥ \$25,000, effective July 1, 2004

Works of Art and Historical Treasures

Not capitalized

### **13.4.2 Medicare Capital Asset Thresholds**

All Medicare assets with a value \$5000 or more are required to be tracked in the Medicare Asset Listing.

### **13.4.3 DelDOT Capital Asset Thresholds**

All DelDOT assets are tracked according to DelDOT's internal written policies and procedures in the DelDOT listing.

## **13.5 Capital Asset Classifications**

Capital assets are segregated into the following classifications:

- Buildings
- Building Improvements
- Easements
- Infrastructure
- Land
- Land Improvements
- Leasehold Improvements
- Leased Assets
- Software
- Vehicles/Furniture/Equipment
- Works of Art and Historical Treasures

### 13.5.1 Buildings

A *building* is any structure erected to stand permanently and designed for human use or occupancy or as shelter for animals or goods. Each building is comprised of components such as framing, interior finish, roof structure and cover, and building service systems.

*Building service systems* are those systems and their components that provide plumbing, sewerage, heating, ventilation, air conditioning, lighting, power, elevators or escalators, and fire protection. Building service systems also include special or unique services to specific structures, such as public address or emergency power systems.

The cost of a building includes its construction or purchase costs and the costs of all fixtures permanently attached and made part of the building. Purchase costs include original purchase price, expenses for altering a purchased building to make it ready to use for the purpose for which it was acquired, and any professional fees (legal, architect, inspections, title searches, etc.)

Building expenditures have no capitalization threshold. All building expenditures are capitalized, if the expenditures meet the criteria.

Construction costs are those costs incurred to complete construction projects or additions (extension, expansion, or enlargement to an existing capital asset such as a second floor or new wing on a building). The construction costs should be capitalized if the costs are valued at \$100,000 or more.

Land costs, furniture, or other equipment to furnish the building **should not** be included in the building costs. These items should be recorded separately by the appropriate asset class.

Examples of expenditures to be capitalized as buildings:

#### **Purchased Buildings**

- Original purchase price
- Expenses for remodeling, reconditioning or altering a purchase building to make it ready to use for the purpose for which it was acquired
- Environmental compliance (i.e. abatement)
- Professional fees (sale commission, legal, architect, inspection, appraisal, title search, etc.)
- Payment of unpaid or accrued taxes on the building at the date of purchase
- Cancellation or buyout of existing leases on the building
- Other costs required to place or render the asset into operation



## Constructed Buildings

- Completed project costs
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints, etc.
- Cost of building permits
- Professional fees (architect, engineer, management fees for design and supervision, legal)

**Note:** Architect fees are expensed if a decision is made to not proceed with the construction of the building.

### 13.5.2 Building Improvements

A building improvement's primary purpose is to increase output, lower operating costs, improve working conditions, enhance the original quality, extend the useful life, or otherwise add to the worth of future benefits or utility expected to be received from the asset. The following expenditures are examples of improvements to buildings that are capitalized, if the cost of the improvement is valued at \$100,000 or more:

- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building
- Additions to buildings (expansions, extensions, or enlargements)
- Conversion of attics, basements, etc. to usable office, clinic, research, or classroom space.
- Structures attached to the building such as covered patios, garages, carports, enclosed stairwells, etc.
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other framing.
- Other costs associated with the above improvements; i.e. architectural fees, construction management fees, etc.

**NOTE:** Expenditures for alterations are not capitalized, unless they represent extraordinary alterations or the expenditures are so major in value the entire asset is substantially rebuilt. An alteration refers to the modification or modernization of buildings and structures. Examples of alterations include installation of new entry and exit openings, closing old ones, erecting new walls, windows, and partitions, and removing old ones.

The following expenditures are examples that **are not** capitalized as improvements to buildings and should be recorded as maintenance expenses:

- Adding, removing, and/or moving of walls relating to renovation projects, which are not considered major rehabilitation projects and do not increase the value of the building.
- Improvement projects of minimal or no added life expectancy and/or value to the building.
- Plumbing or electrical repairs.
- Cleaning, pest extermination, or other periodic maintenance.
- Interior decorations, such as draperies, blinds, curtain rods, wallpaper, etc.
- Exterior decoration, such as detachable awnings, uncovered porches, decorative fences, etc.
- Maintenance-type interior renovation, such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.
- Maintenance-type exterior renovation, such as repainting, replacement of deteriorated siding, roof, or masonry sections.
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, such as replacement of an old boiler with a new one of the same type and performance capabilities.
- Moving of furniture from one building to another during construction.
- Any other maintenance-related expenditure, which does not increase the value of the building.

If any alteration or maintenance repair item is so major in value the entire asset is substantially rebuilt, a determination should be made as to whether the alteration should be classified as an improvement or an addition. Agencies should contact the State's CAM personnel for assistance with any questions in making these determinations.

### 13.5.3 Easements

An *easement* is a non-possessory interest in land owned by someone else, which entitles the owner of the interest to a limited use or enjoyment of the land and to protection from interference with its use. The landowner retains fee title to the property, while the easement

holder maintains the rights to control development of the land. The State's purchase of such easements is reported in FSF.

**For example**, a conservation easement is a legal agreement between a landowner and a conservation organization. The easement places permanent restrictions on future uses of the property to protect its agricultural character. Conservation easements prohibit residential or commercial development and uses or practices, which would be destructive to the agricultural value and productivity of the land.

### 13.5.4 Infrastructure

*Infrastructure* is defined as long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include highways, roads, bridges, dams, and lighting systems. GASB 34 separates infrastructure assets into *networks* and *subsystems*.

A *network* of assets is a group of assets that provide a particular type of service for a government. An example of a network of infrastructure assets would be a dam composed of a concrete dam, a concrete spillway, and a series of locks.

A *subsystem* of a network of assets is composed of all assets that make up a similar portion of segment of a network of assets. Interstate highways, state highways, and rural roads would each be considered a subsystem of the network of all the roads of a government.

Most buildings should not be considered infrastructure assets for purposes of GASB 34, with the exception of buildings that are an ancillary part of a network or infrastructure assets. Examples of buildings that may be an ancillary part of a network or subsystem include road maintenance structures, such as shops or garages associated with a highway system.

The majority of the State's infrastructure assets is maintained by DelDOT and includes roadways, bridges, and traffic management devices. At the current time, only DelDOT reports infrastructure assets.

Certain assets, which may appear to meet the definition of infrastructure assets, may be more technically considered land or building improvements, which are directly related to a capitalized asset (land or building). These assets include roadways, walks, parking lots, lighting systems, fencing, docks, piers, boat ramps, telecommunications cabling, etc. These assets are ancillary capital assets (ancillary to another asset i.e., land, building or a group of buildings) that increase the level of service of an existing capital asset.

### 13.5.5 Land

Land is considered real property. Land costs include initial purchase costs, surveying fees, appraisal and negotiation fees, legal and title fees, damage payments, site preparation costs

(clearing, filling, and leveling), and the assumption of any liens, mortgages, or encumbrances on the property. The demolition of unwanted structures at the time of the acquisition with the intention of using the cleared land is also considered a part of land costs.

Land that is purchased with the intent to resell is accounted for as inventory. Each “parcel” of land owned by the State is recorded as a separate asset (exclusive of buildings). If property is purchased that includes a building(s), the value of the land must be separated from the total cost and recorded as a separate asset.

Land has no minimum dollar threshold. Therefore, all land must be recorded in the CAPITAL asset listing in FSF. Rights-of-way are not capitalized; however, land purchased for highway construction is capitalized.

### **13.5.6 Land Improvements**

*Land improvements* are physical changes in, or appurtenances to, land of such character as to increase the utility of the land (exclusive of structures). Land improvements meeting the \$100,000 per unit historical cost threshold will be capitalized and entered into FSF. Land improvements include, but are not limited to:

- Paving (parking lots)
- Curbing
- Sidewalks
- Fences
- Retaining Walls
- Boat Ramps
- Piers and Docks
- Utility Distribution Systems
- Swimming Pools
- Playgrounds
- Septic Systems
- Paths and Trails

- Golf Course
- Recreation areas and athletic fields
- Water impoundment structures or attachments (dam, liner, other water control structures)
- Outside sprinkler systems
- Fountains
- Plazas, Pavilions
- Tennis courts

### **13.5.7 Leasehold Improvements**

*Leasehold improvements* are capital expenditures made to real estate not owned by the State, where the State has the right to the use of the real estate by virtue of a lease. The lessee capitalizes leasehold improvements, and the capitalization threshold for leasehold improvements is \$100,000. Improvements made in lieu of rent should be expensed in the period incurred.

### **13.5.8 Leased Assets**

The State leases some assets through lease purchase agreements. The State has elected not to capitalize these leases due to the relative immateriality of these assets to the financial statements of the State taken as a whole. In many cases, the state does not take possession of the asset at the end of the lease term. If a capital asset is transferred to a State agency at the conclusion of a lease, the asset is added to FSF based on the costs incurred to purchase the asset, including interest costs.

Assets purchased via lease purchase agreements are entered into FSF after final payment has been made on the lease. *A lease purchase asset's in-service date* is the date of final payment, when the asset becomes state property. Lease purchase assets valued at or above \$25,000 with an in-service date of July 1, 2004, or later, are tracked in the State's CAPITAL asset listing. Lease purchase assets with an in service date prior to July 1, 2004 are tracked in the CAPITAL asset listing if the asset's value is \$15,000 or more.

### **13.5.9 Software**

The State recognizes agencies purchase computer software for many of the same reasons they purchase other capital assets, including reducing costs, improving efficiencies, strengthening internal controls, and improving customer service. Effective July 1, 2005, all computer software with a useful life of one year or more and purchased or put in service with a cost of \$1,000,000 or more must be tracked in the CAPITAL asset listing for reporting purposes. The software is amortized over an estimated useful life of five years.

### **13.5.10 Intangible Assets**

The Governmental Accounting Standards Board (GASB) issued Statement No. 51, “Accounting and Financial Reporting for Intangible Asset.” Governments are required to implement this standard for periods beginning after June 15, 2009, which would be fiscal year 2010 for the State of Delaware. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software (including licenses). Statement No. 51 identifies an intangible asset as having the following three required characteristics:

- It lacks physical substance – in other words, you cannot touch it, except in cases where the intangible is carried on a tangible item (for example, software on a DVD).
- It is nonfinancial in nature – that is, it has value, but is not in a monetary form like cash or securities, nor is it a claim or right to assets in a monetary form like receivables, nor a prepayment for goods or services.
- Its initial useful life extends beyond a single reporting period.

Note: Software maintenance agreements are to be expensed in the period incurred.

### **13.5.11 Vehicles/Furniture/Equipment**

Costs of vehicles/furniture/equipment include the total purchase price after discounts, plus any trade-in allowances, transportation charges, installation costs, and any other costs required to prepare the asset for its intended use.

Examples of expenditures to be capitalized as equipments include:

- Original contract or invoice price
- Freight charges
- Import duties
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Costs of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment

**Note:** If incidental items, such as extended warranties or maintenance agreements, are included with the capital asset upon receipt and are not listed as a line item on the purchase order or on the invoice, then the incidental charges are considered a part of the capital asset.

An asset with associated component parts that are necessary to the functioning of the asset is considered to be one asset when the life and utility of the component parts are mainly dependent on that of the asset.

**For example,** a mainframe CPU, with a cost of \$24,000 and its associated cables with a cost of \$1,500, would qualify for financial reporting since their combined cost exceeds the \$25,000 financial reporting threshold. Assets with associated component units that qualify for financial reporting are reported as one asset, and the component parts are included in the description of the asset.

Also included are asset with associated attachments (e.g. a collator installed in a copy machine). Attachments purchased at the same time as the asset are considered part of the asset because their life and utility coincide with that of the asset. Attachments obtained subsequent to the purchase of the asset are not considered to be associated with that asset. Therefore, such attachments are accounted for as separate assets, if they meet the capitalization criteria.

**For example,** if a copier with a cost of \$26,000 and a collator with a cost of \$12,000 are purchased *at the same time*, they are considered associated assets. Since their combined cost exceeds the \$25,000 threshold, the copier is reported at a cost of \$38,000 and the collator is included in the description of the asset. The same assets purchased at different times are not considered associated assets. The copier is reported at a cost of \$26,000 and tracked as a CAPITAL asset, but the collator is not reported or tracked as a CAPITAL asset, since its cost does not meet the \$25,000 threshold. (The collator may, however, need to be tracked in the NOCAP asset registry based upon other agency or federal requirements.)

Effective July 1, 2004, vehicles, furniture, and equipment that cost \$25,000 or more that have a useful life of one year or more are recorded in FSF. Capital assets placed in the system prior to June 30, 2004, with a value equal to or greater than \$15,000 but below \$25,000, should not be deleted from the system. Vehicles, furniture, and equipment include, but are not be limited to:

- Cars
- Trucks
- Construction Machinery
- Computers (i.e., processing units, tape drives, disk drives)
- Printing Presses and Reproduction Equipment
- Tractors

- Buses
- Telecommunications Equipment
- Furniture

## Equipment vs. Vehicle

A vehicle is a fixed asset that can move itself under its own power. Cars and trucks should be classified as vehicles. Travel trailers, horse trailers, etc. should be classified as equipment. Careful consideration should be given as to whether an asset is a vehicle or equipment.

### 13.5.12 Works of Art and Historical Treasures

GASB 34 states that governments should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at the date of donation (estimated if necessary), if they are held as a collection. Governments are exempted from capitalizing collections, however, if the following conditions are met:

- The collections are not held for financial gain but for public exhibition, education, research, or other reason of public service.
- The collections or individual items are protected, cared for, and preserved.
- The collections are subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

This exemption does not apply to collections already capitalized as of June 30, 1999, even if they meet the above conditions for exemption from capitalization. These collections will continue to be capitalized, along with all future additions to the collection.

For clarification purposes, the following definitions are used regarding collections of works of art and historical treasures:

- *Exhaustible collections or items* – are items whose useful lives are diminished by display or educational or research applications.
- *Inexhaustible collections or items* – are items where the economic benefit or service potential is used up so slowly the estimated useful life is extraordinarily long. Because of its cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.



GASB 34 states that capitalized exhaustible collections should be depreciated over their estimated useful lives. Inexhaustible collections do not require depreciation

GASB 34 does not define what or how many works of art, historical treasures, and similar assets constitute a “collection.” Therefore, the definition is left to professional judgment. The State of Delaware defines collections of works of art, historical treasures, and similar assets as one or more inexhaustible items, which are held for public education, educational purposes, or research for enhancement of public service, rather than for financial gain.

Each agency should be diligent in identifying collections that need to be reported. The listing below includes, but is not limited to, examples of possible historical treasures, works of art, and similar assets.

- Paintings, photography, maps, manuscripts, libraries, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia located at various State museums and office buildings.
- Monuments and statues on display at various sites around the State.

The State of Delaware has elected not to capitalize collections to expedite the completion of the State’s CAFR each year. By not capitalizing collections, the State also has reduced the amount of time and effort required by state agencies to maintain this information in FSF.

In order for the State to be exempt from the capitalization requirements in GASB 34 for works of art, historical treasures, and similar assets, all agencies holding such assets must have in place a policy concerning those assets. These policies should include language stating that all collection items donated to the agency or purchased with state funds are:

- Not held for financial gain, but rather for public exhibition, education, or research in furtherance of public service.
- Protected, cared for, and preserved.
- Subject to an agency policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

## **13.6 Property Inventory**

The State requires agencies to conduct a physical property inventory each year. Inventory results are reconciled to the State’s property records, and any required adjustments to property records, as a result of the inventory, must be completed by June 28th.

State agencies are required to maintain documentation to illustrate the physical inventory was performed. Agencies are required to submit a certification verifying that such inventory has been conducted to the Director of Accounting no later than June 28th of each year.

For property liability purposes, all building acquisitions, new occupancies, improvements, renovations, additions, and demolitions to state-owned property must be reported by agencies to OMB's Insurance Coverage Office on a Property Inspection Form. The form can be found at <http://inscov.delaware.gov/forms>. The agency responsible for the asset is responsible for completing and submitting the form to OMB when the asset is placed in or out of service. Coverage of buildings with damage claims may be denied if the Property Inspection Form, documenting the value and details of the property, has not been submitted to the Insurance Coverage Office.

## 13.7 Depreciation

All capitalized assets are depreciated using the straight-line method of depreciation, except those assets that are considered inexhaustible such as land, works of art, historical treasures, and similar assets. Depreciation is calculated monthly in FSF, based on the date the asset was available for use or placed in service.

Historically, the State uses its capital assets well beyond their useful lives, and little value, if any, remains when an asset is retired. No residual or salvage value is used in the depreciation calculations.

Depreciation is expensed on a monthly basis. When a capital asset is deemed lost, obsolete, sold, stolen, or otherwise disposed, all accumulated depreciation is expensed and the capital asset is retired from the active Capital listing.

The estimated useful lives of capitalized assets are as follows:

- Buildings and building improvements ..... 40 years
- Vehicles..... 7 years
- Furniture/Equipment ..... 10 years
- Land improvements ..... 20 years
- Software.....5 years

State hospitals within the Department of Health and Social Services and the Veteran's Home within the Department of State are exempt from usage of the above useful life schedule. A longer or shorter life assignment may be used by the State hospitals for the purpose of Medicare reimbursement, with the approval of the Medicare fiscal intermediary. Such schedule of useful

life is required to be documented and maintained as part of each institution's written property inventory policies.

Medicare Capital Asset Schedule of Useful Life:

- Buildings ..... 10 to 40 years
- Buildings improvements ..... 5 to 40 years
- Vehicles ..... 4 to 20 years
- Furniture/Equipment ..... 4 to 40 years
- Land improvements ..... 18 to 40 years

DelDOT is exempt from usage of the State's schedule of useful life. A longer or shorter life assignment may be used by DelDOT, provided that the schedule of useful life is documented and maintained as part of DelDOT's written property inventory policy.

DelDOT Capital Asset Schedule of Useful Life:

- Buildings ..... 40 years
- Buildings improvements ..... 15 years
- Equipment ..... 5 to 40 years
- Land improvement ..... 20 years
- Software ..... 5 years

### 13.7.1 Infrastructure Assets - Modified Approach vs. Depreciation

The State has elected to use the modified approach for reporting infrastructure assets. The modified approach is an alternative to reporting depreciation for infrastructure assets that meet the following criteria:

- The assets are managed using a qualifying asset management system.
- The assets are being preserved and documented at or above condition levels established by the government.

Under the modified approach, infrastructure assets are required to be capitalized. However, they do not need to be depreciated if they meet the two requirements discussed above. Expenditures made to maintain these assets are to be expensed in the period incurred, while expenditures for additions and/or improvements are capitalized.

DelDOT is responsible for the written policies and procedures to manage infrastructure assets in conformity with GASB 34. The State's policies and procedures are to include:

- Identification of eligible infrastructure assets that are comprised of either a network or subsystem. The modified approach shall be applied to all assets within that network or subsystem.
- Establishment and documentation of minimum acceptable condition levels for each element of the network or subsystem.
- Reference documents that detail replicable condition assessments and the frequency in which assessments are completed.
- Reference documents that detail annual estimates to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the State.

### **13.7.2 Presentation Requirements for-Depreciation Expenses in the Statement of Activities – Shared Assets**

Depreciation expenses for capital assets that serve multiple functions, such as multipurpose buildings, are not included in the direct expenses. Depreciation expenses are included as a separate line item in the Statement of Activities or as part of a “general” function. Because of the additional effort required to prorate depreciation expense among various functions, the State has opted to report this expense as a separate line item and not allocate the expense as an indirect expense to other functions.

## **13.8 Asset Transactions**

### **13.8.1 Acquiring a Capital Asset**

Purchase orders are required for all assets costing \$5000 or more, including assets purchased with the SuperCard. Agencies are required to use the system's Receiver functionality to record asset information. Agencies should contact CAM for assistance or questions.

1. Capital assets must be recorded at the acquisition cost, which includes the cost on the vendor's invoice (plus the value of any trade-in), sales tax, initial installation costs (excluding in-house labor), modifications, attachments, accessories, and any apparatus necessary to make the asset usable and render it into service. Acquisition costs also include freight and transportation charges, site preparation costs, and professional fees.
2. Donated or confiscated capital assets are reported at the estimated fair value of the asset at the time of acquisition, plus any ancillary charges. *Donations* are defined as voluntary contributions of resources to a governmental entity by a non-governmental entity. The donated items must have a valuation by a professional to support the fair market value. The cost of the valuation is included in the value of the asset, when the asset is entered into the system.
3. Agencies must include a Vehicle Identification Number, tag number, model number and the manufacturer's name in the asset record in the State's financial management system for all vehicle purchases.

### 13.8.2 Retiring and Disposing of Capital Assets

All equipment, supplies, and materiel, including vehicles, purchased in whole or in part with State appropriated funds are considered assets of the State and not of the state agency which holds or uses the materiel. When assets held or used by a State agency are determined to be in excess of the agency's needs, the agency is responsible for notifying the OMB'GSS, for appropriate reallocation or disposal.

**29 Del. C. § 7002**

State agencies receiving property from another state agency must record the carrying value of the property, with any accumulated depreciation recognized from the original date the property was placed into state service. Any fees or other monetary consideration between state agencies for the transfer of state-owned property is not capitalized.

The capital asset end user must submit capital assets for disposal by using a disposal worksheet within FSF. State agencies must submit a Delaware Surplus Service Excess Property Declaration form to OMB/GSS. After all forms are processed by GSS, CAM personnel will process the system transactions required to dispose or retire assets listed in the CAPITAL asset listing. The disposal of non-capital assets is the responsibility of the agencies. Agencies are responsible for maintaining documentation to support the retirement or disposal of an asset of any value. For information regarding the accounting transactions associated with the proceeds from the sale or disposal of assets, agencies should refer to **Chapter 8 – Miscellaneous Purchasing Requirements, Section 8.4.**

## 13.9 Impairments

According to GASB Statement No. 42, (Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries), *asset impairment* is defined as a significant, unexpected decline in the service utility of an asset. The term *significant* refers to the magnitude of the impairment when compared to the service utility of the asset. An *unexpected decline* refers to a decline in the net book value of an asset that exceeds the amount expected through accumulated depreciation. The *service utility* of a capital asset is the usable capacity at the acquisition of the asset that was expected to be used to provide service (as distinguished from the *level of utilization*, which is the portion of the usable capacity that is currently being used).

### 13.9.1 Determining Impairment

The determination of whether a capital asset has been impaired is a two-step process. First, capital assets that have experienced events or changes in circumstances that could potentially indicate impairment should be identified. Then, these identified assets should be tested to determine if actual impairment has occurred.

In GASB 42, the emphasis is on events or changes in circumstances that are prominent and known to the government. In other words, state agencies are not required to perform additional procedures to identify impairment beyond those already performed as part of normal operations.

The five most common indicators of potential impairment include:

1. Physical damage, such as a building damaged by fire or flood, which requires significant costs to restore the asset's service utility.
2. Changes in laws or regulations that limit or curtail the use of a capital asset, such as a water treatment plant that does not meet, and cannot be modified to meet, new standards.
3. Technological development or evidence of obsolescence.
4. A change in a manner or expected duration of use of a capital asset, such as closure of a school prior to the end of its useful life.
5. Construction stoppage due to lack of funding.

A decrease in the use of capital assets is not, in itself, considered a separate indicator of impairment unless it is associated with one of the items listed above.

### 13.9.2 Measuring Impairment

The amount of impairment for capital assets that are permanently impaired and remain in service must be calculated, net of insurance recoveries, and recognized as an expense. The carrying value must also be decreased by the calculated amount of the asset's impairment.

GASB 42 discusses several methodologies for calculating the amount of a capital asset's impairment. The following are the methods for measuring impairment:

- **Restoration Cost Approach** – Under this approach, the amount of impairment is derived from estimated costs to restore the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated cost using an appropriate cost index or by applying a ratio of estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.
- **Service Units Approach** – This approach isolates the historical cost of the service utility of the capital asset that cannot be used due to the impairment event or circumstance. The amount of impairment is determined by evaluating the service provided by the capital asset before and after the event or change in circumstance.
- **Deflated Depreciated Replacement Cost Approach** – This approach replicates the historical cost of the service produced. A current cost for a capital asset to replace the current level of service is estimated. This estimated current cost is depreciated to reflect the fact that the capital asset is not new, and then is deflated to convert it to historical cost dollars.

The relationships between the types of impairment and the methodology used to calculate the impairments are outlined below:

<u>Type of Impairment</u>	<u>Method Used to Calculate the Amount of the Impairment</u>
Physical Damage	Restoration Cost Approach
Changes in legal or environmental factors	Service Units Approach
Technological change	Service Units Approach
Change in manner or duration of use	Service Units Approach or Deflated Depreciated Replacement Cost Approach



### 13.9.3 Accounting for Impairments

Assets that are impaired and taken out of service permanently should be carried at the lower of carrying value or fair value, with no further annual depreciation expense. Capital assets impaired from construction stoppage should also be reported at the lower of carrying value or fair value.

State agencies should assess their capital assets at least annually to determine if they have any impaired capital assets with material carrying values. DOA must be notified if any assets have been determined to be impaired by the common indicators above. DOA will make the determination as to which method will be used to calculate and report the asset values in the State's CAFR.

Agencies should contact State Asset Management personnel for assistance in identifying and managing impaired assets.

## 13.10 Work-In-Progress – Future Assets

The State does not capitalize Construction-Work-In-Progress (CWIP) and Software-Work-In-Progress (SWIP). The underlying future assets are tracked in the system's Asset Management module only when the assets are put into service.

### 13.10.1 Construction-Work-In Progress (CWIP)

Paid labor, material, and overhead costs of a construction project are temporarily tracked and recorded in the financial management system's Project Costing module (**Chapter 4 – Budgeting, Section 4.8 Project Costing**). Cumulative expenditures to all vendors involved in the project are tracked and documented if the expenditures meet the criteria for construction items. When the project is completed, construction costs are aggregated as acquisition costs for the asset(s), and allocated to one or more of the major asset classes, such as buildings and/or land improvements.

Documentation to support Construction-Work-In-Progress must be maintained throughout the project in order to properly value the asset when construction is completed. Construction-Work-In-Progress information is usually maintained by OMB. However, any agency that has responsibility for construction projects must follow the proper record management procedures. For a complete listing of documents to be maintained for CWIP, agencies should refer to **Chapter 2 – Internal Controls, Section 2.4.3 External Construction Program Filing System**.



At the close of the fiscal year, agencies and OMB are responsible for reporting Construction-Work-In-Progress balances to the CAFR team for inclusion in the State's financial statements. Agencies should provide all Construction-Work-In-Progress information for agency-proprietary projects to DOA in the agency's annual GAAP package.

Completed construction projects are entered into the financial management system's Capital asset listing by central asset management personnel. The agency responsible for the construction project must notify central asset management personnel that construction is complete and that the asset is ready to transfer be placed into service. The asset must be added to the State's Capital asset listing in the same fiscal year that the project is removed from the Construction-Work-In-Progress list.

Asset values can be changed after the original capital asset has been added to the Capital asset listing. Any unpaid bills or retainage fees paid after the asset is transferred from the CWIP list to the Capital asset listing may only be added to the recorded value of the asset by CAM personnel. Agencies should contact the State's CAM personnel for assistance.

Projects requiring Construction-Work-In-Progress tracking must meet the following criteria:

- The Project is intended to produce a capital asset upon completion.
- The estimated total cost of the project at completion is \$100,000 or greater.
- The project must not have a final inspection, in service, or occupancy date prior to the close of the fiscal year.

A project is considered **complete** when it is ready for its intended use and the status is changed to "in service" in the State's financial management system. For example, when a new building has received an occupancy certificate or the building is ready for its intended use, OMB, the school, or the agency should remove the project from Construction-Work-In-Progress list and change the status of the project to "in service". Agencies should then notify DOA's CAM personnel of the change in status, so the asset may be added to the State's capital asset listing.

For example, if a building is ready for occupancy in May 2006, but the employees do not move in until July 2007, the building should be entered into the State's financial management system in May. State agencies should contact DOA for guidance if employees have questions as to whether or not a project is complete.

Costs not considered Construction-Work-In-Progress are:

- Audit Fees;
- Non-Construction Insurance Costs;
- Furniture Purchases;
- Equipment Purchases;

- Unpaid Bills; or
- Encumbered Funds.

### **13.10.2 School District and College Construction-Work-In-Progress (CWIP)**

Each local school district and Delaware Technical and Community College is responsible for the tracking and reporting of any educational Construction-Work-In-Progress projects, including additions, improvements, and renovations to existing buildings. The school's or college's Business Manager will report Construction-Work-In-Progress balances in the State's annual GAAP Package for inclusion in the State's financial statements. All documentation relating to the school's construction projects will be maintained at each school for audit purposes, until completion of a successful audit.

### **13.10.3 Software-Work-In-Progress (SWIP)**

The standard for capitalizing the costs of software developed or obtained for internal use is the American Institute of Certified Public Accountants (AICPA) State of Position (SOP) 98-1, (Accounting for the Costs of Computer Software Developed or Obtained for Internal Uses). Under this standard, software projects are divided into three stages:

- Preliminary Project Stage;
- Application Development Stage; and
- Post-Implementation Operation (or Production) Stage.

Software projects incurred July 1, 2005, or later, with an estimated value of \$1,000,000 or more, are capitalized. Any costs incurred prior to July 1, 2005, cannot be capitalized.

Only costs associated with the **Application Development Stage** are capitalized. These costs include the following activities:

- Design of chosen path, including software configuration and software interfaces
- Coding
- Installation of hardware
- Testing, including parallel processing phase
- Vendor costs for commercially purchased software

- Contractors or employee costs to implement and install commercially purchased software
- Contractors or employee cost to design, program, install, and implement internally developed software
- Salaries and fringe benefits costs for employee time spent directly coding and testing
- External direct costs of material and services consumed in developing or obtaining software, such as fees paid to third parties for services and costs incurred to obtain the software from third parties

When a project is complete, the state agency responsible for the project changes the status of the project in the system's Project Costing module to in-service. In-service is when the end user begins using the software. The paid costs in the Application Development Stage must be tracked by the appropriate agency using a tracking system like Construction-Work-In-Progress. (Agencies should refer to **Section 13.10.1** if this chapter.)

Costs that are associated with the **Preliminary Project Stage** and the **Post-Implementation Operation (Production) Stage** are not capitalized. These costs are to be expensed as incurred.—Examples of costs for each stage are as follows:

**Preliminary Project Stage** - These costs include the following activities:

- Conceptual formulation of alternatives
- Evaluation of alternatives
- Determination of existence of needed technology
- Final selection of alternatives

**Post-Implementation Operation (Production) Stage** - These costs include:

- Training
- Application maintenance

Costs of reengineering activities associated with new or upgrade software applications are not to be capitalized. General and administrative costs related to software development **are not** capitalized. These costs include heat, electric, rent, security, building maintenance or secretarial expenses. Cost of upgrades and enhancements to computer software are capitalized only if the upgrades or enhancements provide additional functionality, and the cost exceeds \$1,000,000.

